

Montana Teachers' Retirement System Board Meeting October 6, 2023

BOARD MEMBERS PRESENT

Kari Elliott, Chair

Daniel Chamberlin, Vice Chair (*virtual*)

Daniel Trost, Member

Dee Brown, Member (*virtual*)

A quorum is reached when three members are present. Two Board seats currently are vacant.

STAFF PRESENT

Shawn Graham, Executive Director

Tammy Rau, Deputy Executive Director

Denise Pizzini, Chief Legal Counsel

Nolan Brilz, Accounting/Fiscal Manager

Darla Fitzpatrick, Communication Manager

John Noble, Information Systems Manager

Chris Fish, Auditor

OTHERS PRESENT

Todd Green, Cavanaugh Macdonald Consulting

Bryan Hoge, Cavanaugh Macdonald Consulting

Jim Kerins, Consultant, Communication and Management Services

Rebecca Power, Legislative Services Division (*virtual*)

Dominick Vergara, Active TRS Member (*virtual*)

Call to Order

Chairperson Kari Elliott called the meeting to order at 8:30 a.m.

Adoption of the Agenda

Chairperson Elliott requested a motion to adopt the meeting agenda.

Motion/Vote: Member Daniel Trost moved to adopt the agenda. Member Dee Brown seconded the motion, which was approved.

Approval of Minutes

Chairperson Elliott requested a motion to approve the minutes from the August 10, 2023 meeting.

Motion/Vote: Member Brown moved to approve the August 10, 2023 minutes as written, with Member Daniel Chamberlin seconding. The motion was approved by all members present.

Public Comment on Board Related Items

This is an opportunity for members of the public to comment on any public matter not on the agenda and within the jurisdiction of the Board.

There was no public comment.

Actuarial Valuation

Todd Green and Bryan Hoge, of the actuarial firm Cavanaugh Macdonald Consulting, presented the results of their July 1, 2023 actuarial valuation of TRS. Mr. Green began by reviewing the purpose of an actuarial valuation, which is to measure the assets and liabilities of a plan as of a point in time while also considering long-term trends to estimate whether contributions and investment returns will be enough to fund benefits for future retirees. Actuaries also make educated guesses about member behavior (when they might retire) and demographics (how long they might live) to estimate the future liabilities of the plan.

Mr. Hoge then reviewed the July 1, 2023 actuarial valuation results. He reminded the Board that the valuation represents a snapshot of the plan as of that date, and repeating the process annually provides a consistent way for the Board to monitor whether funding is on track.

Investment returns as of July 1 were 8.30%. Mr. Hoge explained that Cavanaugh Macdonald employs a smoothing method whereby market gains or losses are averaged over a four-year period. The 8.30% gain for fiscal year 2023 is combined with a -4.13% loss in FY 2022, a large gain of 27.73% in FY 2021, and a small gain of 2.72% in FY 2020. This produces a four-year average of 7.66%, which still exceeds the actuarially assumed rate of return of 7.30%. The valuation also indicates that TRS's funded status has improved to 72.49% and the amortization period has decreased from 25 to 24 years.

Mr. Green and Mr. Hoge fielded questions from the Board and confirmed that, if the actuarial assumptions used for valuing the system are met, the unfunded liability and amortization period will gradually shrink. Several pension plans around the country can adjust contribution rates to ensure stable funding, whereas in Montana, the rates are set by the Legislature. However, Mr. Green feels this method has worked well and the plan is in good shape.

Public Comment

There was no comment.

With no further discussion, Chairperson Elliott requested a motion to adopt the July 1, 2023 actuarial valuation results.

Motion/Vote: Member Trost moved to adopt the valuation results. Member Chamberlin seconded the motion and it was approved by all members present.

Administrative Business

Investment Report

Member Trost, who represents TRS on the Board of Investments (BOI) board, noted that market returns have begun to decline after several months of gains. He summarized the BOI's current views on investing in equities versus fixed income and he noted that, although the economy has slowed, a strong labor market and a housing shortage are two indicators that the economy is not headed for a major recession. Market volatility may continue, but Mr. Trost reminded the Board that the BOI invests TRS assets for the long term to weather these ups and downs.

FY 2023 Budget Status and Financials Report

TRS Accounting/Fiscal Manager Nolan Brilz reviewed the August 31, 2023 fund balance sheet, which shows investment gains for the first two months of the fiscal year. However, as mentioned by Member Trost, markets have since declined.

The operating budget reflects higher costs for personal services, largely due to statutory pay increases that took effect July 1, 2023 for all state employees. Although it is early in the fiscal year, Mr. Brilz expects TRS will finish the year with a budget surplus, although it will be smaller than in recent years. Executive Director Shawn Graham provided context for certain budget line items and there were no further questions or concerns from the Board.

Tentative 2023 Meeting Dates

The last meeting of 2023 was tentatively scheduled for Friday, December 1, but Chairperson Elliott is unable to attend that day. After discussion, the Board agreed to move the meeting to Thursday, November 30, 2023.

Public Comment

There was no comment.

Request for Public Information or Public Records and Fees Policy

Director Graham announced that, although the Board had reviewed a draft revision to this policy at the October meeting, the Department of Administration has just announced new requirements and soon will issue a new policy on public information requests. Because the TRS policy will require additional changes to align with the Department's policy, Director Graham suggests the Board not adopt the revisions discussed at the last meeting.

Motion/Vote: Member Trost moved to table the approval of TRS's policy on Requests for Public Information or Public Records – Fees. Member Brown seconded the motion, which was approved by all members present.

Budget Amendment – Communications FTE

Director Graham presented a request to approve an additional communications FTE as discussed in the strategic planning session in August. He explained the new position has been classified by State Human Resources as Public Relations Specialist 1 and he provided documentation showing the occupational standards for the position and market data justifying the recommended salary range.

The corresponding budget amendment would, if approved, authorize salary for the new FTE as well as a pay increase and reclassification of the existing communications manager's position from Public Relations Specialist 2 to Public Relations Supervisor.

Motion/Vote: Member Chamberlin moved to approve the FY 2024 budget amendment to hire an additional communications FTE and to increase the salary of the existing communications manager. Member Trost seconded the motion, which was approved by all members present.

Next Meeting Date

The next Board meeting will be held on Thursday, November 30, 2023.

Executive Director's Report

Executive Summary – Operations and Staff Update

Director Graham reported that TRS benefit officers have traveled to four cities across Montana for pre-retirement seminars, with two additional trips scheduled for next week. Staff also will travel to Billings for the Montana Federation of Public Employees' annual educator conference. Three webinar dates also have been scheduled in November and December for members who were unable to attend one of the live presentations.

Robert Grotzke was hired in August to fill the imaging technician position that had been vacant for several months. Except for the newly approved communications position, TRS is fully staffed.

Legislative Interim Committee Update

Director Graham reported the State Administration and Veterans' Affairs (SAVA) committee met in mid-September to adopt their work plan, which includes another study of defined benefit pensions as requested by SJ 4. He will attend the SAVA meeting scheduled for November 8, 2023 to present the TRS actuarial valuation results. He reported that four members of the Legislative Finance Committee (LFC) have been appointed to the pension study group.

Public Comment

Rebecca Power with the Legislative Services Division confirmed that the entire SAVA committee will participate in the pension study group along with the four LFC members. The study group will be introduced at the November 8 meeting, with work to begin in earnest in January 2024.

Chairperson Elliott announced that the Board would change the order of topics on the agenda to hear the TRS Internal Auditor Report next.

Annual TRS Internal Auditor Report

Chris Fish, who recently completed her first year in this newly created position, provided a report of audit activities and findings. In fiscal year 2023 she audited 16 small and large employers, and she plans to complete 31 audits in fiscal year 2024.

Ms. Fish described her process for conducting audits and she summarized the most common types of reporting errors she found in FY 2023. Often, the employer has not reported all service performed by a member, such as for coaching, or has failed to report stipends or other reportable compensation. The total amount owed to TRS by these 16 employers was slightly more than \$100,000, and the TRS accounting department worked with them to collect the underpaid contributions. Member Brown commented that the findings in this report illustrate the value of having an auditor on staff.

In response to a question from Member Chamberlin, Director Graham explained that most errors are unintentional. For example, substitute teachers and part-time paraprofessionals who are not already members of TRS may elect to postpone membership until they work at least 210 hours in a fiscal

year. When that threshold is reached, the employer must begin reporting and remitting contributions. However, if the individual works in multiple school districts, the employers may not know the threshold has been exceeded. TRS intends to explore whether the M-Trust pension management system can be modified to help employers track that information.

Public Comment

There was no comment.

Applications and Retirement Benefits

Regular, Survivorship, Adjustments and Corrections

Deputy Executive Director Tammy Rau reported that TRS staff had processed 536 applications for retirement benefits between April 1 and August 31, 2023, the busiest time of year. The average age of these applicants was 60.8 years and they had an average of 23.86 years of creditable service at the time of retirement.

Informal Board Review

Informal Review of Membership Tier for Dominick Vergara

Mr. Vergara requested an informal review of the final staff determination regarding his status as a Tier 2 member of TRS. He had been a Tier 1 member of TRS until 2009, when he left employment and opted to withdraw his contributions, forfeiting all privileges and rights of membership.

In 2013, the Montana Legislature passed laws creating a new membership tier (Tier 2), which took effect July 1, 2013. TRS statute is clear that Tier 2 applies to anyone whose membership began on or after July 1, 2013, including those who previously withdrew from TRS as Tier 1 members and then repurchase their forfeited creditable service. Mr. Vergara returned to TRS-reportable employment in 2014 as a Tier 2 member. In 2020 he repurchased his previously withdrawn service credit and he believes his status as a Tier 1 member should be reinstated.

Mr. Vergara joined the meeting virtually to make a statement for the Board's consideration. Director Graham began by summarizing the final staff determination and the laws on which it was based. Mr. Vergara then spoke about his reasons for requesting reinstatement as a Tier 1 member. After hearing his request, each Board member acknowledged the value of his service to students and to his community, but they agreed their duty as Board members is to follow the law.

Motion/Vote: Member Brown moved to deny Mr. Vergara's request to be reinstated as a Tier 1 member. Member Chamberlin seconded the motion and it was passed by all members present.

Chief Legal Counsel Denise Pizzini explained to Mr. Vergara that he will receive a letter explaining his right to request a contested case hearing.

Strategic Planning

2023-2025 Strategic Planning Summary and Commitment Worksheet

Jim Kerins of Communication Management Services joined the meeting to present the final Strategic Planning Summary document for Board approval. Following a brief review of the

document, Director Graham confirmed that all comments and suggestions made by the Board at the August meeting had been incorporated into the final draft. He will provide a status update on the objectives listed on the commitment worksheet at every meeting and the Board can decide to change the priority of objectives as needed.

Public Comment

No members of the public were present.

Motion/Vote: Member Trost moved to adopt the Strategic Planning Summary and Commitment Worksheet. Member Brown seconded the motion, and it was approved by all members present.

Legal Counsel's Report

Ms. Pizzini reported there are no contested case matters at this time. She will send a letter to Mr. Vergara outlining his contested case hearing rights. Chairperson Elliott asked about the process by which a member may request a contested case hearing. Ms. Pizzini explained that a contested case may be requested even if TRS staff believes there is no legal basis for challenging the decision. In such case, TRS can file for summary judgment.

Election of Officers

Election of Chair and Vice Chair

Chairperson Elliott asked about the status of board appointments. Director Graham stated that Dr. Rob Watson, Executive Director of the School Administrators of Montana (SAM), had made recommendations to the Governor's Office, but it is unknown when an appointment will be made.

Motion/Vote: Member Trost made a motion to reelect Kari Elliott as chair and Dan Chamberlin as vice chair. Member Brown seconded the motion, which was approved by all members present.

Committee Appointments

Members of the Board discussed postponing committee appointments until at least one more member has been appointed.

Motion/Vote: Member Trost moved to table the committee appointment until the November meeting. Member Brown seconded and the motion was passed by all members present.

Disability Applications

Closed Meeting

Executive Session to Discuss Disability Applications

The Board began its executive session at 10:52 a.m. to review one application for disability retirement benefits. This session was closed to the public, as a disability applicant's right to privacy clearly exceeds the merits of public disclosure.

Open Meeting

The meeting was reopened to the public at 11:03 a.m.

Approval of Application for Disability Retirement Benefits

Chairperson Elliott requested a motion to approve or disapprove the disability retirement application of member J.G. Action on this member’s request had been tabled during the August meeting to allow time for additional medical review.

Motion/Vote: Member Chamberlin moved to disapprove member J.G.’s request for disability benefits. Member Trost seconded the motion and it was passed by all members present.

Public Comment

No members of the public were present.

Adjournment

With no other business before the Board, Chairperson Elliott requested a motion to adjourn.

Motion/Vote: Member Trost moved to adjourn the meeting and Member Brown seconded. The meeting was adjourned at 11:04 a.m.

Chairperson /s/ Daniel Chamberlin (Vice Chair)

Executive Director /s/ Shawn Graham